

**SOUTHEAST DELCO
SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2011

SOUTHEAST DELCO SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

January 18, 2012

Board of School Directors
Southeast Delco School District
Folcroft, Pennsylvania

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Southeast Delco School District (the "District"), Folcroft, Pennsylvania, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Southeast Delco School District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's 2010 financial statements and, in our report dated January 10, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Southeast Delco School District, Folcroft, Pennsylvania, as of June 30, 2011, and the respective changes in its financial position and its cash flows, where applicable, thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2012 on our consideration of Southeast Delco School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of School Directors
Southeast Delco School District

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southeast Delco School District's basic financial statements. The accompanying schedule of expenditures of federal awards and certain state grants is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BARBACANE, THORNTON & COMPANY LLP

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2011**

This discussion and analysis of the financial performance of Southeast Delco School District (the "District") provides an overview of the District's financial activities for the fiscal year ended June 30, 2011.

FINANCIAL HIGHLIGHTS

Total net assets for the District increased by \$5,976,040. Net assets of governmental activities increased by \$6,028,594, and net assets of business-type activities decreased by \$52,554. Program revenues accounted for \$22.3 million, or 32 percent of total revenues (\$69.5 million); and general revenues accounted for \$47.2 million, or 68 percent of the total.

As of June 30, 2011, the general fund reported a positive fund balance of \$7.7 million, of which \$4.4 million is unassigned, \$3.2 million is committed for capital projects and \$24 thousand is assigned to athletic purposes. The capital projects fund reported a \$19.6 million fund balance restricted for capital purposes.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its overall activities. These statements include all the assets and liabilities of the District (except for fiduciary funds held in trust for student purposes) using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net assets and changes during the fiscal year. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as the District's property tax base, current property tax laws, student enrollment growth and facility conditions in arriving at a conclusion regarding the overall health of the District.

The entity-wide financial statements of the District are divided into two categories:

- **Governmental Activities:** All the District's basic services are included here, such as instruction, administration and community services. Property taxes, state and federal subsidies and grants finance most of these activities.
- **Business-type Activities:** The District operates a food service function and charges fees to staff, students and visitors. The food service function also is subsidized through state and federal subsidies.

The reader is invited to review additional tax, enrollment, budget and financial information at the District's business office located in the administrative offices which are located at 1560 Delmar Drive, Folcroft, Pennsylvania. Also available for review are official offering statements of recent District bond issues that contain related housing, commercial and demographic information about Southeast Delco School District.

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2011**

ENTITY-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$24.1 million at the close of the most recent fiscal year. In the prior year, assets exceeded liabilities by \$18.1 million.

A portion of the District's total net assets (69.3 percent) reflects its investment in capital assets, net of related debt. The District uses capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table is a comparative analysis of fiscal year 2011 to 2010:

STATEMENT OF NET ASSETS

| | Governmental Activities | | Business-type Activities | | Totals | |
|--|-------------------------|---------------------|--------------------------|-------------------|---------------------|---------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| ASSETS: | | | | | | |
| Current and other assets | \$37,303,668 | \$ 8,949,121 | \$ 314,987 | \$ 403,027 | \$37,618,655 | \$ 9,352,148 |
| Capital assets | 46,779,270 | 45,323,697 | 83,312 | 73,518 | 46,862,582 | 45,397,215 |
| TOTAL ASSETS | \$84,082,938 | \$54,272,818 | \$ 398,299 | \$ 476,545 | \$84,481,237 | \$54,749,363 |
| LIABILITIES AND NET ASSETS: | | | | | | |
| Current liabilities | \$ 9,124,475 | \$ 6,982,861 | \$ 10,101 | \$ 35,793 | \$ 9,134,576 | \$ 7,018,654 |
| Long-term liabilities | 51,263,424 | 29,623,512 | - | - | 51,263,424 | 29,623,512 |
| Total Liabilities | 60,387,899 | 36,606,373 | 10,101 | 35,793 | 60,398,000 | 36,642,166 |
| Net Assets: | | | | | | |
| Invested in capital assets, net of related debt | 16,597,663 | 17,252,370 | 83,312 | 73,518 | 16,680,975 | 17,325,888 |
| Unrestricted | 7,097,376 | 414,075 | 304,886 | 367,234 | 7,402,262 | 781,309 |
| Total Net Assets | 23,695,039 | 17,666,445 | 388,198 | 440,752 | 24,083,237 | 18,107,197 |
| TOTAL LIABILITIES AND NET ASSETS | \$84,082,938 | \$54,272,818 | \$ 398,299 | \$ 476,545 | \$84,481,237 | \$54,749,363 |

Unrestricted accumulated net assets represent resources to be used for unanticipated fluctuations in expenditures and/or revenues that can occur after the Board of School Directors approves an annual budget. Such fluctuations can result in expenditures that are greater than current year revenues. At such times, the District must rely on its accumulated fund balance (unrestricted accumulated net assets) to make up the difference. Additionally, for certain categories of expenditures, the District may realize cost-saving opportunities if it prepays these expenses. If these prepayments are greater than currently realized revenues, then the District must rely on its unrestricted accumulated net assets in order to realize these savings. Finally, financial analysts view maintenance of adequate unrestricted accumulated net assets as an important criterion when establishing the bond rating for a public school district.

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2011**

Total net assets of the District's governmental activities increased by \$6,028,594, and overall unrestricted net assets reflect a positive balance of \$7,402,262. The District's investment in capital assets, net of related debt, decreased \$644,913.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for the governmental activities.

**STATEMENT OF ACTIVITIES
(Amounts in Thousands)**

| | <u>Total Cost of Services 2011</u> | <u>Net Cost of Services 2011</u> | <u>Total Cost of Services 2010</u> | <u>Net Cost of Services 2010</u> |
|--------------------------------------|--|--|--|--|
| PROGRAM EXPENSES | | | | |
| Governmental Activities: | | | | |
| Instruction | \$ 42,246 | \$ (28,075) | \$ 42,911 | \$ (28,223) |
| Instructional support staff | 3,821 | (3,588) | 3,844 | (3,621) |
| Administration | 4,808 | (4,613) | 4,134 | (3,971) |
| Maintenance | 4,635 | (4,449) | 4,560 | (4,395) |
| Pupil transportation | 3,087 | (1,829) | 2,571 | (1,309) |
| Student activities | 570 | (535) | 542 | (512) |
| Community services | 109 | (88) | 119 | (109) |
| Interest and fiscal charges | 2,354 | 2,007 | 1,714 | (1,306) |
| Total Governmental Activities | <u>\$ 61,630</u> | <u>\$ (41,170)</u> | <u>\$ 60,395</u> | <u>\$ (43,446)</u> |
| Business-type Activities: | | | | |
| Food Service | <u>\$ 1,920</u> | <u>\$ (53)</u> | <u>\$ 2,012</u> | <u>\$ (8)</u> |

The net cost of services for pupil transportation increased \$520 thousand due to increased costs for contracted carriers as well as an increase in depreciation expense for capital assets purchased in the current year. Additionally, the District received \$4.0 million in Plancon reimbursements from the Commonwealth for capital projects completed in prior years. This resulted in net revenue for interest and fiscal charges of \$2.0 million for 2011 compared to a net cost of \$1.3 million for 2010.

**CHANGES IN NET ASSETS
(Amounts in Thousands)**

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Totals</u> | |
|-------------------------------|--------------------------------|---------------|---------------------------------|--------------|---------------|---------------|
| | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> | <u>2011</u> | <u>2010</u> |
| REVENUES | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 91 | \$ 53 | \$ 525 | \$ 523 | \$ 616 | \$ 576 |
| Operating grants | 20,013 | 16,896 | 1,342 | 1,480 | 21,355 | 18,376 |
| Capital grants | 357 | - | - | - | 357 | - |
| Total Program Revenues | <u>20,461</u> | <u>16,949</u> | <u>1,867</u> | <u>2,003</u> | <u>22,328</u> | <u>18,952</u> |

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2011**

**CHANGES IN NET ASSETS
(Amounts in Thousands)**

| (continued) | Governmental Activities | | Business-type Activities | | Totals | |
|-----------------------------|-------------------------|-----------------|--------------------------|---------------|-----------------|-----------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| General Revenues: | | | | | | |
| Property and other taxes | 32,419 | 28,804 | - | - | 32,419 | 28,804 |
| Grants and entitlements | 14,744 | 14,426 | - | - | 14,744 | 14,426 |
| Investment earnings | 15 | 28 | - | 1 | 15 | 29 |
| Miscellaneous | 20 | 47 | - | - | 20 | 47 |
| Total General Revenues | 47,198 | 43,305 | - | 1 | 47,198 | 43,306 |
| TOTAL REVENUES | 67,659 | 60,254 | 1,867 | 2,004 | 69,526 | 62,258 |
| EXPENSES | | | | | | |
| Program Expenses: | | | | | | |
| Instruction | 42,246 | 42,911 | - | - | 42,246 | 42,911 |
| Support Services: | | | | | | |
| Instructional support staff | 3,821 | 3,844 | - | - | 3,821 | 3,844 |
| Administration | 4,808 | 4,133 | - | - | 4,808 | 4,133 |
| Maintenance | 4,635 | 4,560 | - | - | 4,635 | 4,560 |
| Pupil transportation | 3,087 | 2,571 | - | - | 3,087 | 2,571 |
| Student activities | 570 | 542 | - | - | 570 | 542 |
| Community services | 109 | 119 | - | - | 109 | 119 |
| Interest and fiscal charges | 2,354 | 1,714 | - | - | 2,354 | 1,714 |
| Food service | - | - | 1,920 | 2,012 | 1,920 | 2,012 |
| TOTAL EXPENSES | 61,630 | 60,394 | 1,920 | 2,012 | 63,550 | 62,406 |
| CHANGE IN NET ASSETS | \$ 6,029 | \$ (140) | \$ (53) | \$ (8) | \$ 5,976 | \$ (148) |

Governmental Activities

The cost of all governmental activities in 2010-2011 was \$61.6 million. The amount that taxpayers ultimately financed for these activities through tax revenues was \$32.4 million, or 52.6 percent. A majority of the other costs were paid by government agencies and organizations that subsidized funding with intergovernmental aid and contributions totaling \$35.1 million, or 57.0 percent. As indicated by the governmental program expenses, instructional programs account for approximately 68.5 percent of the total expenses of the District's governmental activities.

Business-type Activities

Business-type activities include the food service program. This program had a decrease in net assets of \$53 thousand for the fiscal year.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Governmental funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending in future periods. These funds are reported using the modified accrual accounting method, which measures cash and other financial assets that can readily be converted to cash. The

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2011**

governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Proprietary funds - Proprietary funds use the accrual basis of accounting, the same as on the entity-wide statements; therefore, the statements will essentially match the business-type activities portion of the entity-wide statements.

Fiduciary funds - The District is the trustee, or fiduciary, for its scholarship program and other items listed as private-purpose trusts. In addition, the District accounts for funds held on behalf of students of the District. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. The District excludes these activities from its other financial statements because the assets cannot be used by the District to finance its operations.

Fund Financial Statements

The fund financial statements of the District's major funds provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions. The District's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

The District's governmental funds reported a combined fund balance of \$27.3 million, which is an increase from the previous year's total by \$25.8 million. The schedule below indicates the fund balance and the total change in fund balances from June 30, 2010 to June 30, 2011.

| | <u>Fund Balance June 30, 2011</u> | <u>Fund Balance June 30, 2010</u> | <u>Increase</u> |
|-----------------------|---------------------------------------|---------------------------------------|----------------------|
| General Fund | \$ 7,661,371 | \$ 1,480,736 | \$ 6,180,635 |
| Capital Projects Fund | <u>19,591,471</u> | <u>-</u> | <u>19,591,471</u> |
| | <u>\$ 27,252,842</u> | <u>\$ 1,480,736</u> | <u>\$ 25,772,106</u> |

The increase in fund balance for the general fund can be attributed to \$4.0 million in Plancon reimbursements received in the current year and an increase in current real estate taxes of \$3.8 million over the prior year.

The capital projects fund balance increased as the District issued general obligation notes totaling \$22.8 million for ongoing renovations at Academy Park High School. The ending fund balance was \$19.6 million at June 30, 2011.

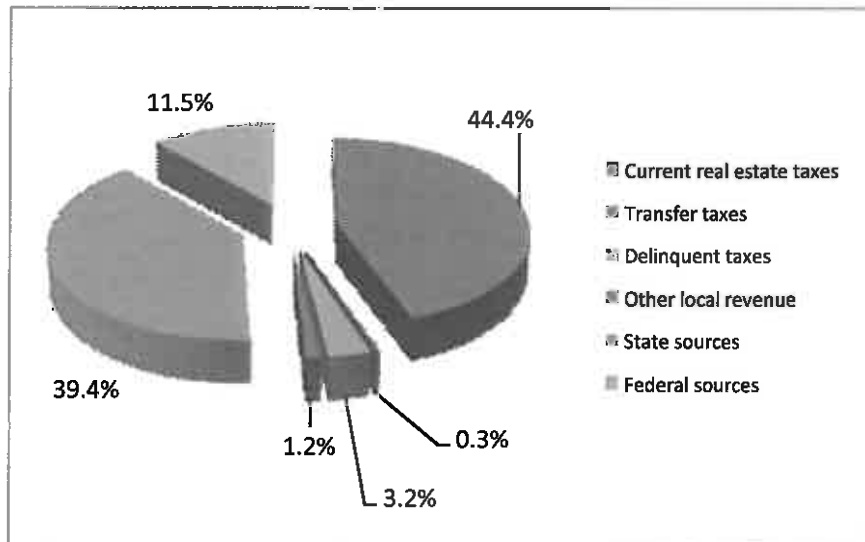
**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2011**

REVENUES

| | Fiscal Year | | Variance | |
|---------------------------|----------------------|----------------------|---------------------|---------------|
| | 2011 | 2010 | Amount | % |
| General Fund: | | | | |
| Current real estate taxes | \$ 29,812,482 | \$ 25,983,527 | \$ 3,828,955 | 14.74% |
| Transfer taxes | 193,864 | 293,561 | (99,697) | -33.96% |
| Delinquent taxes | 2,123,370 | 2,703,687 | (580,317) | -21.46% |
| Other local revenue | 774,805 | 176,526 | 598,279 | 338.92% |
| State sources | 26,401,302 | 22,885,061 | 3,516,241 | 15.36% |
| Federal sources | 7,703,513 | 7,849,171 | (145,658) | -1.86% |
| TOTAL REVENUE | \$ 67,009,336 | \$ 59,891,533 | \$ 7,117,803 | 11.88% |

Total general fund revenue exceeded expenditures by \$6,180,635. The millage rate for 2010-2011 was 35.784 mills. The current year collection rate for 2010-2011 was 92.2 percent. The tables and graphs that follow assist in illustrating the financial activities and balance of the general fund.

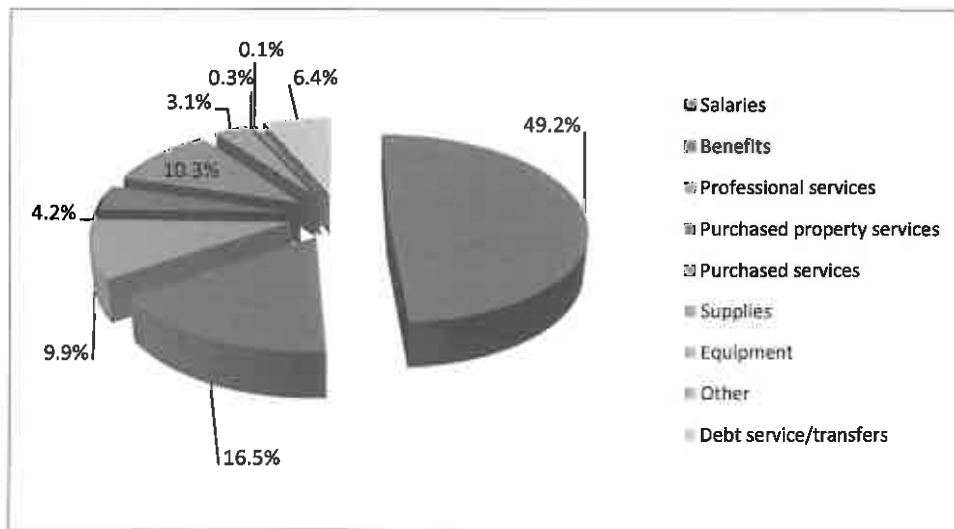


The District's local tax revenue accounts for 44.4 percent of total funding, as illustrated in the above graph. State sources which include grants and subsidies accounted for 39.4 percent of District revenue.

**SOUTHEAST DELCO SCHOOL DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2011**

As the graph below illustrates, the largest portion of general fund expenditures are for salaries and fringe benefits. The District is a service entity and, as such, is labor-intensive.



EXPENDITURES

| Object | Fiscal Year | | Variance | |
|-------------------------------------|----------------------|----------------------|-------------------|-------------|
| | 2011 | 2010 | Amount | % |
| Salaries | \$ 29,836,602 | \$ 29,449,977 | \$ 386,625 | 1.3% |
| Benefits | 10,045,043 | 10,325,684 | (280,641) | -2.7% |
| Professional services | 6,036,766 | 6,557,686 | (520,920) | -7.9% |
| Purchased property services | 2,583,803 | 2,440,141 | 143,662 | 5.9% |
| Purchased services | 6,258,447 | 5,665,839 | 592,608 | 10.5% |
| Supplies | 1,872,954 | 1,962,450 | (89,496) | -4.6% |
| Equipment | 196,213 | 127,526 | 68,687 | 53.9% |
| Other | 89,825 | 64,057 | 25,768 | 40.2% |
| Debt service/transfers | 3,909,048 | 3,792,597 | 116,451 | 3.1% |
| Total Expenditures by Object | \$ 60,828,701 | \$ 60,385,957 | \$ 442,744 | 0.7% |

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2011**

General fund expenditures increased \$443 thousand, or 0.7 percent, over the prior year due to increases in purchased services which were offset by reductions in professional services and benefits. These reductions were due to the fact that the District hired personal care assistants, which were contracted positions in previous years, and negotiated changes to employee medical benefit plans.

General Fund Budget Information

The District's budget is prepared in accordance with Pennsylvania law and is based on the modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

The final budget amounts for expenditures reflect required changes in functional categories due to spending patterns.

EXPENDITURES:

| Function Code | Description | Budgeted Amounts | | Variance | |
|---------------|---|----------------------|----------------------|---------------------|--------------|
| | | Original | Final | Amount | % |
| | Instruction: | | | | |
| 1100 | Regular programs | \$ 21,880,587 | \$ 22,484,941 | \$ 604,354 | 2.8% |
| 1200 | Special programs | 11,450,785 | 11,911,193 | 460,408 | 4.0% |
| 1300 | Vocational programs | 974,698 | 974,698 | - | 0.0% |
| 1400 | Other instructional programs | 4,899,364 | 5,531,964 | 632,600 | 12.9% |
| 1600 | Higher education programs | 266,311 | 266,311 | - | 0.0% |
| | Total Instruction | 39,471,745 | 41,169,107 | 1,697,362 | 4.3% |
| | Support Services: | | | | |
| 2100 | Pupil personnel services | 2,017,742 | 2,071,744 | 54,002 | 2.7% |
| 2200 | Instructional staff support | 1,268,269 | 1,383,338 | 115,069 | 9.1% |
| 2300 | Administrative services | 3,415,056 | 3,415,056 | - | 0.0% |
| 2400 | Pupil health | 507,230 | 507,230 | - | 0.0% |
| 2500 | Business office | 1,056,556 | 1,056,556 | - | 0.0% |
| 2600 | Maintenance and facilities | 4,884,027 | 4,884,027 | - | 0.0% |
| 2700 | Student transportation services | 3,654,474 | 3,542,463 | (112,011) | -3.1% |
| 2800 | Information services | 340,455 | 340,455 | - | 0.0% |
| 2900 | Other support services | 28,704 | 29,550 | 846 | 2.9% |
| | Total Support Services | 17,172,513 | 17,230,419 | 57,906 | 0.3% |
| | Operation of Noninstructional Services: | | | | |
| 3200 | Student activities | 475,430 | 557,430 | 82,000 | 17.2% |
| 3300 | Community services | 95,000 | 108,854 | 13,854 | 14.6% |
| | Total Operation of Noninstructional Services | 570,430 | 666,284 | 95,854 | 16.8% |
| 5110 | Debt service | 3,812,279 | 3,314,241 | (498,038) | -13.1% |
| 5130 | Refund of prior year revenues | - | 527 | 527 | 100.0% |
| 5200 | Transfers out | 47,000 | 596,390 | 549,390 | 1168.9% |
| 5900 | Budgetary reserve | 500,000 | - | (500,000) | -100.0% |
| | TOTAL EXPENDITURES | \$ 61,573,967 | \$ 62,976,968 | \$ 1,403,001 | 2.3% |

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2011**

Using spending variances in excess of \$15,000 and using 10 percent as a spending tolerance, the most significant changes in the District's original versus final budgeted expenditures were as follows:

EXPENDITURES:

| Function | | Budgeted Amounts | | Variance | |
|----------|------------------------------|------------------|--------------|------------|---------|
| Code | Description | Original | Final | Amount | % |
| 1400 | Other Instructional Programs | \$ 4,899,364 | \$ 5,531,964 | \$ 632,600 | 12.9% |
| 3200 | Student Activities | 475,430 | 557,430 | 82,000 | 17.2% |
| 5110 | Debt Service | 3,812,279 | 3,314,241 | (498,038) | 13.1% |
| 5200 | Transfers Out | 47,000 | 596,390 | 549,390 | 1168.9% |
| 5900 | Budgetary Reserve | 500,000 | - | (500,000) | -100.0% |

The increase in the student activities final budget amount is attributable mainly to the fact that the Athletic Fund is now included in the General Fund in accordance with GASB Statement No. 54. This resulted in a \$47 thousand reclassification from transfers out to student activities.

The District anticipated additional debt service related to new general obligation debt that was not finalized until the 2011-2012 fiscal year. Therefore, the District reclassified \$498 thousand for debt service to offset expenditures in excess of the original budget for special education and other instructional programs based on student needs.

The District included a budgetary reserve in the original budget for elementary school renovations paid by the general fund, which was reclassified as a transfer out to the capital projects fund with an additional \$96 thousand to reflect the actual cost of the project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had \$46.9 million invested in capital assets, net of accumulated depreciation; \$83.3 thousand of capital assets were allocated to the Food Service Fund. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

Debt

At June 30, 2011, the District had \$48.4 million in outstanding bonds and notes payable. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
FOLCROFT, PENNSYLVANIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (cont'd)
JUNE 30, 2011**

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

The District's property tax base is relatively flat and has remained so for a number of years. Assessed market values of taxable real estate increased slightly over the previous year. Very little new housing or industrial development is occurring within the District which will ultimately create an increased burden on taxpayers in future years as education costs continue to rise.

The District's enrollment is not expected to change significantly for the next three years.

The District has seen special education and transportation subsidies increase minimally as the costs for these mandated services have far exceeded the state revenue increases. Escalating health care premiums, contractual wage increases and the employer's share of retirement contributions will have a significant impact on future budgets. The District also will be responsible for substantial increases in future debt service for general obligation debt related to the Academy Park High School renovations. In addition, future state legislation regarding school funding and real estate tax relief coupled with the financial burdens associated with the federal No Child Left Behind mandates could have a negative impact on District finances.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Vanessa R. Scott, Business Manager, at Southeast Delco School District, 1560 Delmar Drive, Folcroft, PA 19032, 610-522-4300 extension 5393.

SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011
(With Summarized Comparative Data for June 30, 2010)

| | Governmental Activities | Business-type Activities | Totals | |
|---|----------------------------|-----------------------------|----------------------|----------------------|
| | | | 2011 | 2010 |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 31,819,993 | \$ 45,440 | \$ 31,865,433 | \$ 5,223,611 |
| Internal balances | (205,854) | 205,854 | - | - |
| Taxes receivable | 3,079,788 | - | 3,079,788 | 2,661,096 |
| Due from other governments | 2,320,741 | 48,948 | 2,369,689 | 1,314,092 |
| Other receivables | 33,387 | - | 33,387 | 68,542 |
| Prepaid expenses | 64,642 | - | 64,642 | 70,062 |
| Inventories | - | 14,745 | 14,745 | 14,745 |
| Issuance costs | 190,971 | - | 190,971 | - |
| Land | 60,811 | - | 60,811 | 60,811 |
| Land improvements | 3,724,955 | - | 3,724,955 | 3,724,955 |
| Construction-in-progress | 2,798,541 | - | 2,798,541 | - |
| Buildings and improvements | 53,610,855 | - | 53,610,855 | 53,071,855 |
| Furniture and equipment | 7,011,316 | 282,112 | 7,293,428 | 7,161,565 |
| Accumulated depreciation | (20,427,208) | (198,800) | (20,626,008) | (18,621,971) |
| TOTAL ASSETS | \$ 84,082,938 | \$ 398,299 | \$ 84,481,237 | \$ 54,749,363 |
| LIABILITIES AND NET ASSETS | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 2,454,577 | \$ 10,101 | \$ 2,464,678 | \$ 1,053,889 |
| Accrued salaries and benefits | 4,382,670 | - | 4,382,670 | 4,073,428 |
| Accrued interest | 942,026 | - | 942,026 | 506,711 |
| Long-term liabilities | | | | |
| Portion due or payable within one year: | | | | |
| Bonds payable | 1,148,652 | - | 1,148,652 | 1,209,474 |
| Notes payable | 131,000 | - | 131,000 | 122,000 |
| Less: Unamortized discount | (8,703) | - | (8,703) | - |
| Capital leases payable | 74,253 | - | 74,253 | 53,152 |
| Portion due or payable after one year: | | | | |
| Bonds payable | 23,169,547 | - | 23,169,547 | 24,318,199 |
| Notes payable | 23,964,000 | - | 23,964,000 | 1,337,000 |
| Less: Unamortized discount | (146,791) | - | (146,791) | - |
| Capital leases payable | 939,161 | - | 939,161 | 1,031,502 |
| Other post employment benefits | 1,026,073 | - | 1,026,073 | 686,027 |
| Compensated absences/early retirement incentive plan | 2,311,434 | - | 2,311,434 | 2,250,784 |
| TOTAL LIABILITIES | 60,387,899 | 10,101 | 60,398,000 | 36,642,166 |
| NET ASSETS: | | | | |
| Invested in capital assets, net of related debt | 16,597,663 | 83,312 | 16,680,975 | 17,325,888 |
| Unrestricted | 7,097,376 | 304,886 | 7,402,262 | 781,309 |
| TOTAL NET ASSETS | 23,695,039 | 388,198 | 24,083,237 | 18,107,197 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 84,082,938 | \$ 398,299 | \$ 84,481,237 | \$ 54,749,363 |

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011
(With Summarized Comparative Data for the Year Ended June 30, 2010)**

| | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | | |
|---|----------------------|------------------------------------|---|--------------------------|----------------------|----------------------|
| | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-type Activities | Totals | |
| | | | | | 2011 | 2010 |
| GOVERNMENTAL ACTIVITIES | | | | | | |
| Instruction | \$ 42,245,713 | \$ 14,131,950 | \$ (28,075,174) | \$ - | \$ (28,075,174) | \$ (28,222,657) |
| Instructional student support | 3,821,392 | 232,992 | (3,588,400) | - | (3,588,400) | (3,621,373) |
| Administrative and financial support services | 4,808,643 | 196,197 | (4,612,446) | - | (4,612,446) | (3,970,592) |
| Operation and maintenance of plant services | 4,634,988 | 186,014 | (4,448,974) | - | (4,448,974) | (4,394,805) |
| Pupil transportation | 3,086,600 | 1,238,195 | (1,828,651) | - | (1,828,651) | (1,309,206) |
| Student activities | 569,933 | 23,414 | (534,968) | - | (534,968) | (512,259) |
| Community services | 108,854 | - | (87,966) | - | (87,966) | (109,488) |
| Interest on long-term debt | 2,354,206 | 4,004,408 | 2,006,744 | - | 2,006,744 | (1,305,517) |
| TOTAL GOVERNMENTAL ACTIVITIES | 61,630,329 | 20,013,170 | (41,169,835) | - | (41,169,835) | (43,445,897) |
| BUSINESS-TYPE ACTIVITIES | | | | | | |
| Food service | 1,920,115 | 1,342,653 | - | (52,668) | (52,668) | (8,295) |
| TOTAL BUSINESS-TYPE ACTIVITIES | 1,920,115 | 1,342,653 | - | (52,668) | (52,668) | (8,295) |
| TOTAL PRIMARY GOVERNMENT | \$ 63,550,444 | \$ 21,355,823 | (41,169,835) | (52,668) | (41,222,503) | (43,454,192) |
| GENERAL REVENUES | | | | | | |
| Property taxes levied for general purposes | | | 32,225,057 | - | 32,225,057 | 28,510,807 |
| Taxes levied for specific purposes | | | 193,864 | - | 193,864 | 293,561 |
| Grants and entitlements not restricted to specific programs | | | 14,744,234 | - | 14,744,234 | 14,426,242 |
| Investment earnings | | | 14,600 | 114 | 14,714 | 28,102 |
| Miscellaneous | | | 20,674 | - | 20,674 | 47,455 |
| TOTAL GENERAL REVENUES | | | 47,198,429 | 114 | 47,198,543 | 43,306,167 |
| CHANGE IN NET ASSETS | | | 6,028,594 | (52,554) | 5,976,040 | (148,025) |
| NET ASSETS, BEGINNING OF YEAR | | | 17,666,445 | 440,752 | 18,107,197 | 18,255,222 |
| NET ASSETS, END OF YEAR | | | \$ 23,695,039 | \$ 388,198 | \$ 24,083,237 | \$ 18,107,197 |

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011**

(With Summarized Comparative Data for June 30, 2010)

| | Major Funds | | Totals |
|--|----------------------|-----------------------|----------------------|
| | General Fund | Capital Projects Fund | |
| ASSETS | | | |
| Cash and cash equivalents | \$ 10,563,454 | \$ 21,256,539 | \$ 31,819,993 |
| Taxes receivable | 3,079,788 | - | 3,079,788 |
| Due from other funds | - | - | - |
| Due from other governments | 1,964,199 | - | 1,964,199 |
| Other receivables | 33,387 | - | 33,387 |
| Prepaid items | 64,642 | - | 64,642 |
| TOTAL ASSETS | <u>\$ 15,705,470</u> | <u>\$ 21,256,539</u> | <u>\$ 36,962,009</u> |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES: | | | |
| Accounts payable | \$ 885,828 | \$ 1,568,749 | \$ 2,454,577 |
| Due to other funds | 109,535 | 96,319 | 205,854 |
| Accrued salaries and benefits | 4,382,670 | - | 4,382,670 |
| Deferred revenues | 2,666,066 | - | 2,666,066 |
| TOTAL LIABILITIES | <u>8,044,099</u> | <u>1,665,068</u> | <u>9,709,167</u> |
| FUND BALANCES: | | | |
| Nonspendable | 64,642 | - | 64,642 |
| Restricted for capital projects | - | 19,591,471 | 19,591,471 |
| Committed for capital projects | 3,200,000 | - | 3,200,000 |
| Assigned for athletic purposes | 23,506 | - | 23,506 |
| Unassigned | 4,373,223 | - | 4,373,223 |
| TOTAL FUND BALANCES | <u>7,661,371</u> | <u>19,591,471</u> | <u>27,252,842</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 15,705,470</u> | <u>\$ 21,256,539</u> | <u>\$ 36,962,009</u> |
| | | | <u>\$ 8,949,121</u> |

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS
JUNE 30, 2011**

TOTAL GOVERNMENTAL FUND BALANCES \$ 27,252,842

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

| | | |
|----------------------------|---------------------|------------|
| Land | \$ 60,811 | |
| Land improvements | 3,724,955 | |
| Construction-in-progress | 2,798,541 | |
| Buildings and improvements | 53,610,855 | |
| Furniture and equipment | 7,011,316 | |
| Accumulated depreciation | <u>(20,427,208)</u> | 46,779,270 |

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

| | | |
|--|------------------|--------------|
| Bonds payable | (24,318,199) | |
| Notes payable | (24,095,000) | |
| Capital leases payable | (1,013,414) | |
| Other post employment benefits | (1,026,073) | |
| Accumulated compensated absences/early retirement incentive plan | (2,311,434) | |
| Accrued interest | <u>(942,026)</u> | (53,706,146) |

The issuance of debt resulted in issuance costs and deferred charges and credits which will be amortized over the life of the new debt but do not represent current rights. 346,465

Other assets related to long-term debt are not available to pay for current period expenditures and therefore are not reported in the funds. 356,542

Some of the District's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 2,666,066

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 23,695,039

The accompanying notes are an integral part of these financial statements.

SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011
(With Summarized Comparative Data for the Year Ended June 30, 2010)

| | Major Funds | | Totals | |
|--|---------------------|-----------------------|----------------------|---------------------|
| | General Fund | Capital Projects Fund | 2011 | 2010 |
| REVENUES: | | | | |
| Local sources | \$ 32,904,521 | \$ 4,365 | \$ 32,908,886 | \$ 29,168,873 |
| State sources | 26,401,302 | - | 26,401,302 | 22,885,061 |
| Federal sources | 7,703,513 | - | 7,703,513 | 7,849,171 |
| TOTAL REVENUES | 67,009,336 | 4,365 | 67,013,701 | 59,903,105 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction | 40,535,246 | - | 40,535,246 | 41,438,623 |
| Support services | 15,722,823 | 193,437 | 15,916,260 | 14,505,692 |
| Operation of noninstructional services | 659,474 | - | 659,474 | 644,726 |
| Capital outlays | - | 3,414,874 | 3,414,874 | 285,638 |
| Debt service | 3,314,241 | - | 3,314,241 | 3,149,248 |
| TOTAL EXPENDITURES | 60,231,784 | 3,608,311 | 63,840,095 | 60,023,927 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 6,777,552 | (3,603,946) | 3,173,606 | (120,822) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Debt issuance | - | 22,758,000 | 22,758,000 | - |
| Debt discount | - | (158,973) | (158,973) | - |
| Transfers in | - | 596,390 | 596,390 | 702,270 |
| Transfers out | (596,390) | - | (596,390) | (702,270) |
| Refund of prior year receipts | (527) | - | (527) | - |
| Refund of prior year expenditures | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | (596,917) | 23,195,417 | 22,598,500 | 569,920 |
| NET CHANGE IN FUND BALANCES | 6,180,635 | 19,591,471 | 25,772,106 | 449,098 |
| FUND BALANCES, BEGINNING OF YEAR | 1,480,736 | - | 1,480,736 | 1,031,638 |
| FUND BALANCES, END OF YEAR | \$ 7,661,371 | \$ 19,591,471 | \$ 27,252,842 | \$ 1,480,736 |

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 25,772,106

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|----------------------------|
| <p>Capital outlays are reported in governmental funds as expenditures, either as District-wide (capital outlays) or function-specific (i.e. instruction, pupil services.) However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays (\$3,448,113) exceeded depreciation (\$1,992,540).</p> | 1,455,573 |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | 289,205 |
| <p>Debt proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, incurring debt increases liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p> | (21,355,286) |
| <p>Governmental funds report issuance costs and bond discounts as expenditures and deferred bond refunding option proceeds and bond premiums as revenue. However, these amounts are reported on the statement of net assets as deferred charges and credits and are amortized over the life of the debt.</p> | 346,465 |
| <p>In the statement of activities, certain operating expenses--compensated absences (vacations and sick leave) other post employment benefits (OPEB) and special termination benefits (early retirement)--are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This is the net effect of the differences in the treatment of these items.</p> | (400,696) |
| <p>Debt service subsidy reimbursements in the statement of activities differ from the amount reported in the governmental funds because debt service-related payments are recognized as expenditures in the funds when they are due; therefore the related subsidy reimbursement is recognized as the related debt payment is accrued, regardless of when it is due.</p> | 356,542 |
| <p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p> | <u>(435,315)</u> |
| <p>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</p> | <u>\$ 6,028,594</u> |

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

| | Budgeted Amounts | | Actual (GAAP Basis) | Variance with Final Budget Positive (Negative) |
|--|---------------------|-------------------|------------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Local sources | \$32,445,732 | \$32,445,732 | \$ 32,904,521 | \$ 458,789 |
| State sources | 26,381,262 | 26,381,262 | 26,401,302 | 20,040 |
| Federal sources | 2,746,973 | 2,746,973 | 7,703,513 | 4,956,540 |
| TOTAL REVENUES | <u>61,573,967</u> | <u>61,573,967</u> | <u>67,009,336</u> | <u>5,435,369</u> |
| EXPENDITURES | | | | |
| Instruction: | | | | |
| Regular programs | 21,880,587 | 22,484,941 | 21,855,226 | 629,715 |
| Special programs | 11,450,785 | 11,911,193 | 11,911,193 | - |
| Vocational programs | 974,698 | 974,698 | 974,698 | - |
| Other instructional programs | 4,899,364 | 5,531,964 | 5,531,964 | - |
| Community/Junior college educational programs | 266,311 | 266,311 | 262,165 | 4,146 |
| Total Instruction | <u>39,471,745</u> | <u>41,169,107</u> | <u>40,535,246</u> | <u>633,861</u> |
| Support services: | | | | |
| Pupil personnel services | 2,017,742 | 2,071,744 | 2,039,920 | 31,824 |
| Instructional staff services | 1,268,269 | 1,383,338 | 1,129,449 | 253,889 |
| Administrative services | 3,415,056 | 3,415,056 | 3,218,139 | 196,917 |
| Pupil health | 507,230 | 507,230 | 502,098 | 5,132 |
| Business services | 1,056,556 | 1,056,556 | 1,030,882 | 25,674 |
| Operation and maintenance of plant services | 4,884,027 | 4,884,027 | 4,374,484 | 509,543 |
| Student transportation services | 3,654,474 | 3,542,463 | 3,062,924 | 479,539 |
| Central | 340,455 | 340,455 | 335,377 | 5,078 |
| Other support services | 28,704 | 29,550 | 29,550 | - |
| Total Support Services | <u>17,172,513</u> | <u>17,230,419</u> | <u>15,722,823</u> | <u>1,507,596</u> |
| Operation of noninstructional activities: | | | | |
| Student activities | 475,430 | 557,430 | 550,620 | 6,810 |
| Community services | 95,000 | 108,854 | 108,854 | - |
| Total Operation of Noninstructional Services | <u>570,430</u> | <u>666,284</u> | <u>659,474</u> | <u>6,810</u> |
| Debt service | 3,812,279 | 3,314,241 | 3,314,241 | - |
| TOTAL EXPENDITURES | <u>61,026,967</u> | <u>62,380,051</u> | <u>60,231,784</u> | <u>2,148,267</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>547,000</u> | <u>(806,084)</u> | <u>6,777,552</u> | <u>7,583,636</u> |
| OTHER FINANCING USES | | | | |
| Transfers out | (47,000) | (596,390) | (596,390) | - |
| Transfers in | - | - | - | - |
| Refund of prior year receipts | - | (527) | (527) | - |
| Budgetary reserve | (500,000) | - | - | - |
| TOTAL OTHER FINANCING USES | <u>(547,000)</u> | <u>(596,917)</u> | <u>(596,917)</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCE | - | (1,403,001) | 6,180,635 | 7,583,636 |
| FUND BALANCE, BEGINNING OF YEAR | <u>1,480,736</u> | <u>1,480,736</u> | <u>1,480,736</u> | <u>-</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 1,480,736</u> | <u>\$ 77,735</u> | <u>\$ 7,661,371</u> | <u>\$ 7,583,636</u> |

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENTS OF NET ASSETS - PROPRIETARY FUND
JUNE 30, 2011 AND 2010**

| | Major Fund | |
|---|-------------------|-------------------|
| | Food Service Fund | |
| | 2011 | 2010 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 45,440 | \$ 395,552 |
| Due from other funds | 205,854 | - |
| Due from other governments | 48,948 | 94,554 |
| Other receivables | - | 502 |
| Inventories | 14,745 | 14,745 |
| Total Current Assets | <u>314,987</u> | <u>505,353</u> |
| CAPITAL ASSETS: | | |
| Furniture and equipment | 282,112 | 260,821 |
| Accumulated depreciation | (198,800) | (187,303) |
| Capital Assets, Net | <u>83,312</u> | <u>73,518</u> |
| TOTAL ASSETS | <u>\$ 398,299</u> | <u>\$ 578,871</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 10,101 | \$ 35,793 |
| Due to other funds | - | 102,326 |
| Total Current Liabilities | <u>10,101</u> | <u>138,119</u> |
| NET ASSETS: | | |
| Invested in capital assets, net of related debt | 83,312 | 73,518 |
| Unrestricted | 304,886 | 367,234 |
| Total Net Assets | <u>388,198</u> | <u>440,752</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 398,299</u> | <u>\$ 578,871</u> |

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

| | Major Fund | |
|--------------------------------------|--------------------|--------------------|
| | Food Service Fund | |
| | 2011 | 2010 |
| OPERATING REVENUES | | |
| Food service revenues | \$ 524,794 | \$ 523,472 |
| Total Operating Revenues | <u>524,794</u> | <u>523,472</u> |
| OPERATING EXPENSES | | |
| Salaries | 755,403 | 729,284 |
| Employee benefits | 191,776 | 172,953 |
| Supplies | 930,798 | 1,065,734 |
| Equipment repairs | 17,641 | 11,172 |
| Other expenses | 13,000 | 21,597 |
| Depreciation | 11,497 | 10,876 |
| Total Operating Expenses | <u>1,920,115</u> | <u>2,011,616</u> |
| OPERATING LOSS | <u>(1,395,321)</u> | <u>(1,488,144)</u> |
| NONOPERATING REVENUES | | |
| Earnings on investments | 114 | 582 |
| State sources | 72,333 | 74,443 |
| Federal sources | 1,270,320 | 1,405,405 |
| Total Nonoperating Revenues | <u>1,342,767</u> | <u>1,480,430</u> |
| CHANGE IN NET ASSETS | (52,554) | (7,714) |
| NET ASSETS, BEGINNING OF YEAR | <u>440,752</u> | <u>448,466</u> |
| NET ASSETS, END OF YEAR | <u>\$ 388,198</u> | <u>\$ 440,752</u> |

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

| | Major Fund | |
|---|-----------------------|-----------------------|
| | Food Service Fund | |
| | 2011 | 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received for services | \$ 319,442 | \$ 583,265 |
| Payments to suppliers | (1,014,976) | (897,091) |
| Payments to employees | (947,179) | (903,655) |
| NET CASH USED BY OPERATING ACTIVITIES | (1,642,713) | (1,217,481) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| State sources | 74,725 | 72,859 |
| Federal sources | 1,239,053 | 1,280,050 |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 1,313,778 | 1,352,909 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition of capital assets | (21,291) | - |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | (21,291) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Earnings on investments | 114 | 582 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 114 | 582 |
| NET CHANGES IN CASH AND CASH EQUIVALENTS | (350,112) | 136,010 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 395,552 | 259,542 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 45,440 | \$ 395,552 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES: | | |
| Operating loss | \$ (1,395,321) | \$ (1,488,144) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation | 11,497 | 10,876 |
| Donated commodities | 74,481 | 93,535 |
| (Increase) decrease in: | | |
| Due from other funds | (205,854) | 60,136 |
| Other receivables | 502 | (343) |
| Increase (decrease) in: | | |
| Accounts payable | (25,692) | 5,551 |
| Accrued salaries and benefits | - | (1,418) |
| Due to other funds | (102,326) | 102,326 |
| NET CASH USED BY OPERATING ACTIVITIES | \$ (1,642,713) | \$ (1,217,481) |
| SUPPLEMENTAL DISCLOSURE: | | |
| NONCASH NONCAPITAL FINANCING ACTIVITY: | | |
| USDA donated commodities | \$ 74,481 | \$ 93,535 |

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2011**

| | <u>Private - Purpose Trust</u> | <u>Agency</u> |
|---|--|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | <u>\$ 28,589</u> | <u>\$ 23,041</u> |
| TOTAL ASSETS | <u><u>\$ 28,589</u></u> | <u><u>\$ 23,041</u></u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Due to student groups | \$ - | \$ 23,041 |
| NET ASSETS: | | |
| Reserved for trust | <u>28,589</u> | <u>-</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 28,589</u></u> | <u><u>\$ 23,041</u></u> |

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST DELCO SCHOOL DISTRICT
STATEMENTS OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

| | Private-Purpose Trust | |
|---|-----------------------|-----------|
| | 2011 | 2010 |
| ADDITIONS | | |
| Local sources | \$ 5,874 | \$ 5,724 |
| TOTAL ADDITIONS | 5,874 | 5,724 |
| DEDUCTIONS | | |
| Operation of non-instructional activities | 5,225 | 12,549 |
| TOTAL DEDUCTIONS | 5,225 | 12,549 |
| CHANGE IN NET ASSETS | 649 | (6,825) |
| NET ASSETS, BEGINNING OF YEAR | 27,940 | 34,765 |
| NET ASSETS, END OF YEAR | \$ 28,589 | \$ 27,940 |

The accompanying notes are an integral part of these financial statements.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Southeast Delco School District (the "District") operates one full-day kindergarten, four elementary schools (1-8) and one senior high school to provide education and related services to the residents of the Township of Darby and the Boroughs of Collingdale, Folcroft and Sharon Hill. The District operates under current standards prescribed by the Pennsylvania Department of Education in accordance with the provisions of the School Laws of Pennsylvania as a school district of the second class. The District operates under a locally elected nine-member Board form of government.

The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

Reporting Entity

GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. In evaluating the District as a reporting entity, management has addressed all potential component units which may or may not fall within the District's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the District's reporting entity are financial accountability and the nature and significance of the relationship. The District is considered to be an independent reporting entity and has no component units.

Basis of Presentation

Entity-wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. These statements distinguish between activities that are governmental and those that are considered business-type. These statements include the financial activities of the primary government, except for fiduciary funds.

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as further defined under proprietary funds below. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the entity-wide statements and the statements of governmental funds.

The entity-wide statement of activities presents a comparison between expenses and program revenues for each function of the business-type activities of the District and for each governmental program. Expenses are those that are specifically associated with a service or

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

program and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

The entity-wide financial statements report net assets in one of three components. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings attributable to acquiring, constructing or improving those assets. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net assets arising from the capital projects fund. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Fund Financial Statements

During the school year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary fund financial statements are presented by fund type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. The District reports the following major governmental funds:

The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Capital Projects Fund** is used to account for the acquisition, construction and renovation of major capital facilities and their related capital assets.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue Recognition

In applying the "susceptible to accrual concept" under the modified accrual basis, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific District expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned.

Other revenues, including certain other charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Liabilities for compensated absences and special termination benefits are recognized as fund liabilities to the extent they mature each period. Allocations of costs such as depreciation and amortization are not recognized in the governmental funds.

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Allocations of certain costs, such as depreciation, are recorded in proprietary funds. The District does not attempt to allocate all "building-wide costs" to the proprietary fund. Specifically, general fund expenditures that partially benefit the proprietary fund (utilities, janitorial services, insurance, etc.) are not proportionately recognized within the proprietary fund; similarly, the proprietary fund does not recognize a cost for the building space it occupies.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are food service charges. Operating expenses for the District's proprietary fund include food production costs, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed in both the entity-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Fiduciary Funds

Fiduciary funds account for the assets held by the District as a trustee or agent for individuals, private organizations and/or governmental units and are, therefore, not available to support the District's own programs. The District accounts for these assets in a private-purpose trust and agency fund. The private-purpose trust fund accounts for activities in various scholarship accounts, whose sole purpose is to provide annual scholarships to particular students as described by donor stipulations. The agency fund accounts for funds held on behalf of students of the District. The measurement focus and basis of accounting for the private-purpose trust is the same as for proprietary funds, while the agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the entity-wide financial statements as "internal balances."

The District experiences very small losses from uncollectible property taxes. Property taxes constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Accordingly, an allowance for doubtful accounts has not been established by the District for property taxes receivable.

Property Taxes

Taxes are levied on July 1 and are payable in the following periods:

| | | |
|--------------------------|---|-----------------------------------|
| July 1 - August 31 | - | Discount period, 2% of gross levy |
| September 1 - October 31 | - | Face Period |
| November 1 to collection | - | Penalty Period, 10% of gross levy |
| February 28 | - | Lien Date |

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Assessed valuations of property are determined by the Delaware County Board of Assessments. The District's taxes are billed and collected by local elected tax collectors. The tax on real estate for public school purposes for fiscal year 2010-2011 was 35.784 mills (\$35.784 for \$1,000 of assessed valuation).

Prepaid Items and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both entity-wide and fund financial statements.

All inventories are valued at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide and proprietary fund financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed, inclusive of ancillary costs.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

| | |
|----------------------------|-------------|
| Buildings | 45-50 years |
| Land and land improvements | 20-30 years |
| Furniture and equipment | 3-20 years |

Compensated Absences

District policies permit employees to accumulate earned but unused vacation and sick days as stipulated in each bargaining unit's contract. The liability for these compensated absences is recorded as long-term debt in the entity-wide financial statements. The current portion of this debt is based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Long-term Obligations

In the entity-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Deferred amounts on refunding are recorded as a decrease to debt payable and amortized over the life of the old debt or the life of the new debt, whichever is shorter. All amounts are amortized using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received and discounts paid on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures, except for refundings paid from proceeds which are reported as other financing uses.

Fund Equity

Effective July 1, 2010, the District adopted the provisions of GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The District reports the following fund balance classifications:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the Board of School Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified or rescinded only through resolutions approved by the Board of Directors.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Finance Committee or the Business Manager may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first and then unrestricted resources -committed, assigned or unassigned - in order as needed.

The beginning fund balance of the general fund (increase) and the June 30, 2010 nonmajor athletic fund (decrease) were restated by \$25,624 for the inclusion of the athletic fund in the general fund.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Data

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. However, presentation of prior year totals by fund and activity type have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Summarized comparative information should be read in conjunction with the District's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

An annual budget is adopted prior to the beginning of each year for the general fund on the modified accrual basis of accounting. The general fund is the only fund for which a budget is legally required, although project-length financial plans are adopted for all capital projects funds.

The District is required to publish notice by advertisement at least once in two newspapers of general circulation in the municipalities in which it is located, and within 20 days of final action, that the proposed budget has been prepared and is available for public inspection at the administrative offices of the District. Notice that public hearings will be held on the proposed operating budget must be included in the advertisement; such hearings are required to be scheduled at least 10 days prior to the date final action on adoption is taken by the Board.

Legal budgetary control is maintained at the sub-function/major object level. The Board may make transfers of funds appropriated to any particular item of expenditure by legislative action in accordance with the Pennsylvania School Code. Management may amend the budget at the sub-function/sub-object level without Board approval. Appropriations lapse at the end of the fiscal period. Budgetary information reflected in the financial statements is presented at or below the level of budgetary control and includes the effect of approved budget amendments.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 DEPOSITS

Statutes authorize the District to invest in U.S. Treasury bills, time or share accounts of institutions insured by the Federal Deposit Insurance Corporation or in certificates of deposit when they are secured by proper bond or collateral, repurchase agreements, State Treasurer's investment pools or mutual funds.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. The District does not have a policy for custodial credit risk. At June 30, 2011, the carrying amount of the District's deposits was \$31,917,063 and the bank balance was \$32,514,692. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$2,919,996 was exposed to custodial credit risk because, in accordance with Act 72 of the Commonwealth of Pennsylvania, it was uninsured and the collateral held by the depository's agent was not in the District's name.

The remaining cash deposits of the District are in the Pennsylvania Local Government Investment Trust ("PLGIT"). Although not registered with the Securities and Exchange Commission and not subject to regulatory oversight, PLGIT acts like a money market mutual fund in that its objective is to maintain a stable net asset value of \$1 per share, is rated by a nationally recognized statistical rating organization and is subject to an independent annual audit. As of June 30, 2011, PLGIT was rated as AAA by a nationally recognized statistical rating agency.

NOTE 4 DEFERRED REVENUES

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition with resources that have been received, but not yet earned. At the end of the current fiscal year, deferred revenue reported in the governmental funds resulted from delinquent property taxes receivable, federal grants received that have not satisfied eligibility requirements and revenue received but not yet earned.

Deferred revenue in the entity-wide financial statements represents resources that have been received but not yet earned.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 60,811 | \$ - | \$ - | \$ 60,811 |
| Construction in progress | - | 2,798,541 | - | 2,798,541 |
| Total Capital Assets Not Being Depreciated | <u>60,811</u> | <u>2,798,541</u> | <u>-</u> | <u>2,859,352</u> |

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 CAPITAL ASSETS (cont'd)

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|------------------|---------------------------|
| Capital assets being depreciated: | | | | |
| Land improvements | 3,724,955 | - | - | 3,724,955 |
| Buildings | 53,071,855 | 539,000 | - | 53,610,855 |
| Furniture and equipment | 6,900,744 | 110,572 | - | 7,011,316 |
| Total Capital Assets Being Depreciated | <u>63,697,554</u> | <u>649,572</u> | <u>-</u> | <u>64,347,126</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 1,706,732 | 180,173 | - | 1,886,905 |
| Buildings | 12,760,452 | 1,024,022 | - | 13,784,474 |
| Furniture and equipment | 3,967,484 | 788,345 | - | 4,755,829 |
| Total accumulated depreciation | <u>18,434,668</u> | <u>1,992,540</u> | <u>-</u> | <u>20,427,208</u> |
| Total Capital Assets Being Depreciated, Net | <u>45,262,886</u> | <u>(1,342,968)</u> | <u>-</u> | <u>43,919,918</u> |
| Governmental Activities Assets, Net | <u>\$45,323,697</u> | <u>\$ 1,455,573</u> | <u>\$ -</u> | <u>\$46,779,270</u> |
| Business-type activities: | | | | |
| Capital assets being depreciated: | | | | |
| Furniture and equipment | \$ 260,821 | \$ 21,291 | \$ - | \$ 282,112 |
| Total Capital Assets Being Depreciated | <u>260,821</u> | <u>21,291</u> | <u>-</u> | <u>282,112</u> |
| Less accumulated depreciation for: | | | | |
| Furniture and equipment | 187,303 | 11,497 | - | 198,800 |
| Total accumulated depreciation | <u>187,303</u> | <u>11,497</u> | <u>-</u> | <u>198,800</u> |
| Business-type Activities, Net | <u>\$ 73,518</u> | <u>\$ 9,794</u> | <u>\$ -</u> | <u>\$ 83,312</u> |

Depreciation expense was charged to functions/programs of the District as follows:

| | |
|--|---------------------|
| Governmental activities: | |
| Instruction | \$ 1,421,756 |
| Instructional student support | 128,775 |
| Administrative and financial support services | 161,832 |
| Operation and maintenance of plant services | 153,433 |
| Pupil transportation | 107,431 |
| Student activities | <u>19,313</u> |
| Total Depreciation Expense - Governmental Activities | <u>\$ 1,992,540</u> |
| Business-type Activities - Food Service | <u>\$ 11,497</u> |

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBT

The following summarizes the changes in the long-term liabilities of governmental activities for the year ended June 30, 2011:

| | Balance July 1, 2010 | Additions | Reductions | Balance June 30, 2011 |
|--|-----------------------------|----------------------------|----------------------------|-----------------------------|
| Bonds payable | \$ 25,527,673 | \$ - | \$ 1,209,474 | \$ 24,318,199 |
| Note payable | 1,459,000 | 22,758,000 | 122,000 | 24,095,000 |
| Capital leases payable | 1,084,654 | - | 71,240 | 1,013,414 |
| Accumulated compensated absences/early retirement incentive plan | <u>2,250,784</u> | <u>94,804</u> | <u>34,154</u> | <u>2,311,434</u> |
| TOTALS | <u>\$ 30,322,111</u> | <u>\$22,852,804</u> | <u>\$ 1,436,868</u> | <u>\$ 51,738,047</u> |

Payments of long-term debt are expected to be funded by the general fund.

General Obligation Bonds

Series of 1999, capital appreciation bonds, maturing through February 1, 2025, accreting interest from 4.4% to 5.3%, payable on February 1. \$ 10,753,199

Series of 2006, maturing through October 1, 2029, bearing interest from 3.10% to 4.35%, payable on April 1 and October 1. 13,565,000

General Obligation Notes

Series of 2004, maturing through September 25, 2019, with interest at variable rates, payable monthly. Interest rates change on a weekly basis and are determined by the Bond Market Association Index. 1,337,000

Series of 2010, maturing through September 1, 2028, bearing interest at 6.50%, payable on September 1 and March 1. 15,750,000

Series of 2011, maturing through September 1, 2026, bearing interest at 5.43%, payable on September 1 and March 1. 7,008,000

TOTAL \$ 48,413,199

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 GENERAL LONG-TERM DEBT (cont'd)

Presented below is a summary of debt service requirements to maturity by years:

| <u>Year Ending June 30,</u> | <u>Principal Maturities</u> | <u>Interest Maturities</u> | <u>Total Maturities</u> |
|-----------------------------|---------------------------------|--------------------------------|-----------------------------|
| 2012 | \$ 1,279,652 | \$ 3,041,091 | \$ 4,320,743 |
| 2013 | 2,610,679 | 3,171,847 | 5,782,526 |
| 2014 | 2,565,763 | 3,206,571 | 5,772,334 |
| 2015 | 2,516,353 | 3,243,648 | 5,760,001 |
| 2016 | 2,469,435 | 3,273,327 | 5,742,762 |
| 2017-2021 | 11,838,652 | 16,648,138 | 28,486,790 |
| 2022-2026 | 12,991,933 | 14,738,103 | 27,730,036 |
| 2027-2030 | 12,140,732 | 3,527,280 | 15,668,012 |
| | <u>\$ 48,413,199</u> | <u>\$ 50,850,005</u> | <u>\$ 99,263,204</u> |

NOTE 7 CAPITAL LEASES - LESSEE

The District has entered into lease agreements as lessee for financing the acquisition of capital assets. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date.

The assets acquired through the capital leases are as follows:

| | |
|---|--------------------------|
| Office equipment, computers, vehicles and buses | \$ 1,275,750 |
| Less: accumulated depreciation | <u>(318,938)</u> |
| TOTAL | <u>\$ 956,812</u> |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011 were as follows:

| <u>Year Ending June 30,</u> | |
|--|----------------------------|
| 2012 | \$ 115,306 |
| 2013 | 115,306 |
| 2014 | 115,306 |
| 2015 | 115,306 |
| 2016 | 115,306 |
| 2017-2021 | 576,528 |
| 2022-2023 | <u>144,130</u> |
| Total minimum lease payments | 1,297,188 |
| Less: amount representing interest | <u>(283,774)</u> |
| Present value of minimum lease payments | <u>\$ 1,013,414</u> |

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OPERATING LEASES

The District currently is obligated under operating lease agreements for office equipment. The following is a schedule by years of future minimum lease payments:

Year Ending June 30,

| | |
|-------|-------------------|
| 2012 | \$ 146,587 |
| 2013 | 83,520 |
| 2014 | 77,640 |
| 2015 | <u>12,940</u> |
| Total | <u>\$ 320,687</u> |

The total amount charged to expense for the year ended June 30, 2011 was \$172,492.

NOTE 9 INTERNAL RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2011 is as follows:

| <u>Receivable from</u> | | <u>Payable to</u> | |
|------------------------|-----------------------------|-----------------------|-------------------|
| Food Service Fund | \$ 205,854 | General Fund | \$ 109,535 |
| | <u> </u> | Capital Projects Fund | <u>96,319</u> |
| TOTAL | <u>\$ 205,854</u> | TOTAL | <u>\$ 205,854</u> |

Interfund balances between funds represent temporary loans recorded at year end subsequent to a final allocation expenses. The balances generally are paid shortly after year end.

Interfund transfers for the year ended June 30, 2011 are as follows:

| <u>Transfer In</u> | <u>Transfer Out</u> |
|-----------------------|-------------------------|
| Capital Projects Fund | General Fund \$ 596,390 |

Transfers represent funds transferred from the General Fund to subsidize capital needs.

NOTE 10 PENSION PLAN

Plan Description

The District contributes to the Public School Employees' Retirement System ("PSERS"), a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Pennsylvania Public School Employees' Retirement System. The PSERS provides

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 PENSION PLAN (cont'd)

retirement and disability, legislatively mandated *ad hoc* cost-of-living adjustments and certain healthcare insurance premium assistance to plan members and beneficiaries. The Public School Employees Retirement Code (Act No. 96, of October 2, 1975, as amended) provides the authority to establish and amend benefit provisions. The PSERS issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125.

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth. Individual employees contribute between 6.25 percent and 7.5 percent of salary depending on their membership status. Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2011, the rate of employer contribution was 5.64 percent of covered payroll. The District's contributions to PSERS for the years ended June 30, 2009, 2010 and 2011 were \$1,308,924, \$1,420,890 and \$1,792,139, respectively, equal to the required contribution for each year. The Commonwealth contributes to PSERS by reimbursing the District 50 percent of its contribution each year.

NOTE 11 JOINT VENTURES

The District participates in a joint venture with the other school districts of Delaware County, Pennsylvania in the operation of a Vocational-Technical School Authority ("DCVTSA"). The DCVTSA is governed by seven members, each of whom must be a citizen of a school district where the DCVTSA leases a project. The DCVTSA oversees acquiring, holding, constructing, improving and maintaining the public area vocational-technical school buildings. The financial statements of the Vocational-Technical School Authority are available from the DCVTSA located at 200 Yale Avenue, Morton, Pennsylvania 19070.

The District also participates in a joint venture with other school districts of Delaware County, Pennsylvania to support the Delaware County Community College. The financial statements of the Community College Authority are available from the Delaware County Community College Authority ("DCCCA") located at 901 South Media Line Road, Media, Pennsylvania 19063.

The District has entered into lease agreements with the DCCCA and the DCVTSA to provide rental payments to retire the Authority's outstanding debt obligations. The lease agreements generally provide that in the event the individual Authorities either retire all of their outstanding obligations which were issued to finance school facilities construction or acquisition, or accumulate sufficient reserves to cover such obligations prior to the expiration of the applicable schedules, there will be no subsequently scheduled rental payments made. Inasmuch as the annual rentals include reserve funds which either are invested by Authorities or used for advance retirement of obligations, it is anticipated that less than scheduled rentals will eventually be paid.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 11 JOINT VENTURES (cont'd)

Future Authority rental payments are:

| <u>Year Ending June 30,</u> | <u>DCCCA</u> | <u>DCVTA</u> |
|-----------------------------|------------------|-------------------|
| 2012 | \$ 18,811 | \$ 55,403 |
| 2013 | 14,178 | 55,185 |
| 2014 | 16,275 | - |
| 2015 | 16,340 | - |
| 2016 | 16,147 | - |
| 2017-2018 | <u>22,751</u> | <u>-</u> |
| Total | 104,502 | 110,588 |
| Less: Interest requirements | <u>(13,375)</u> | <u>(3,505)</u> |
| Outstanding rental payments | <u>\$ 91,127</u> | <u>\$ 107,083</u> |

NOTE 12 CONTINGENCIES AND COMMITMENTS

Government Grants and Awards

The District participates in both state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The District is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

Litigation

Certain litigation claims are pending against the District. In the opinion of District management and legal counsel, the potential losses, if any, on such claims would not have a materially adverse effect on the District's finances.

NOTE 13 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the District retains risk of loss. For insured programs, there were no significant reductions in insurance coverages during the 2010-2011 year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 14 SPECIAL TERMINATION BENEFITS

The District's current ERIP plans provide for the payment of each of the participants' healthcare premiums. Currently, nine retirees of the District are participating in the District's ERIP plans. For eight of the nine retirees, the District will pay their medical, dental, drug and vision insurance costs for the remainder of their lives. For the other retiree, the District will pay the employee's medical, dental, drug and vision insurance costs until the age of 65. During the year ended June 30, 2011, the District paid \$208,005 in healthcare costs for its retirees. The estimated present value of future healthcare payments for retirees is \$1,737,921 and is recorded as a liability in the governmental activities as of June 30, 2011. The annual healthcare cost trend rate used to estimate the cost of the medical insurance benefit was 8.5 percent, declining to an ultimate rate of 5.0 percent.

NOTE 15 POST-EMPLOYMENT HEALTHCARE PLAN

Plan Description

The District's post-employment healthcare plan is a single-employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. The Board of School Directors has the authority to establish and amend benefit provisions through the collective bargaining process with members of the professional and support staff, an agreement with administrative employees, and individual employment contracts with certain employees. The plan does not issue any financial report and is not included in the report of any public employee retirement system or any other entity.

Funding Policy

The contribution requirements of plan members are established and may be amended by the Board of School Directors. For fiscal year 2011, plan members receiving benefits contributed \$398,251 through their required monthly contributions.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 15 POST-EMPLOYMENT HEALTHCARE PLAN (cont'd)

| | |
|--|---------------------|
| Annual required contribution | \$ 738,297 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | <u>-</u> |
| Annual OPEB cost (expense) | 738,297 |
| Contributions made | <u>(398,251)</u> |
| Increase in net OPEB obligation | 340,046 |
| Net OPEB obligation - beginning of year | <u>686,027</u> |
| Net OPEB obligation - end of year | <u>\$ 1,026,073</u> |

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was 0.00 percent funded. The actuarial accrued liability for benefits was \$5,706,321, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$5,706,321. The covered payroll (annual payroll of active employees covered by the plan) was \$26,448,530, and the ratio of the UAAL to the covered payroll was 21.58 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return and an annual healthcare cost trend rate of 7.5 percent in 2010, reduced by decrements to an ultimate rate of 5.3 percent in 2015 and later. The UAAL is being amortized based on the level dollar, 30-year open period. The remaining amortization period at June 30, 2011 was 27 years.

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 16 **COMMITMENTS**

As of June 30, 2011, the District had outstanding construction projects to be completed. Construction commitments and the amounts completed to date are as follows:

| <u>Contractor Name</u> | <u>Contract Amount</u> | <u>Completed to June 30, 2011</u> | <u>Commitments</u> |
|-------------------------|----------------------------|---------------------------------------|----------------------|
| Bonnett Associates Inc. | \$ 1,575,000 | \$ 823,990 | \$ 751,010 |
| BSI Electrical Inc. | 4,688,500 | 215,375 | 4,473,125 |
| ABJ Sprinkler | 507,300 | - | 507,300 |
| DWD Mechanical | 6,547,000 | 389,000 | 6,158,000 |
| Boro Developers | 11,499,966 | 478,595 | 11,021,371 |
| Jay R. Reynolds | 1,636,000 | 394,332 | 1,241,668 |
| Mattiola Services, LLC | <u>123,181</u> | <u>44,557</u> | <u>78,624</u> |
| Total | <u>\$ 26,576,947</u> | <u>\$ 2,345,849</u> | <u>\$ 24,231,098</u> |

In addition, the District has incurred costs in the amount of \$452,692 that were not under a formal construction commitment as of June 30, 2011.

NOTE 17 **SUBSEQUENT EVENTS**

On November 21, 2011, the District issued \$9,995,000 of General Obligation Bonds, Series of 2011 at interest rates between 1.00 and 3.65 percent. Interest is payable semi-annually beginning April 1, 2012. The bonds mature beginning October 1, 2012 continuing through October 1, 2028. The proceeds of the bonds were used to refund a portion of the District's outstanding General Obligation Bonds, Series of 2006.

On January 18, 2012, the District issued \$4,225,000 of General Obligation Bonds, Series of 2012 at interest rates between 1.00 and 3.70 percent. Interest is payable semi-annually beginning April 1, 2012. The bonds mature beginning October 1, 2013 continuing through October 1, 2029. The proceeds of the bonds were used to refund a portion of the District's outstanding General Obligation Bonds, Series of 2006.

The District has evaluated all subsequent events through January 18, 2012, the date the financial statements were available to be issued.

SINGLE AUDIT

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

January 18, 2012

Board of School Directors
Southeast Delco School District
Folcroft, Pennsylvania

We have audited the financial statements of Southeast Delco School District, Folcroft, Pennsylvania as of and for the year ended June 30, 2011, and have issued our report thereon dated January 18, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southeast Delco School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of School Directors
Southeast Delco School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Delco School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters involving the internal control over financial reporting which we have reported to management of Southeast Delco School District in a separate letter dated January 18, 2012.

This report is intended solely for the information and use of the Board of School Directors, management and federal awarding agencies and pass-through entities; and is not intended to be and should not be used by anyone other than these specified parties.

BARBACANE, THORNTON & COMPANY LLP

REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

January 18, 2012

Board of School Directors
Southeast Delco School District
Folcroft, Pennsylvania

Compliance

We have audited the compliance of Southeast Delco School District, Folcroft, Pennsylvania, with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Southeast Delco School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Southeast Delco School District's management. Our responsibility is to express an opinion on Southeast Delco School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Southeast Delco School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Southeast Delco School District's compliance with those requirements.

In our opinion, Southeast Delco School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Southeast Delco School District, Folcroft, Pennsylvania, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Southeast Delco School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing

Board of School Directors
Southeast Delco School District

procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southeast Delco School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management, the Board of School Directors and federal awarding agencies and pass-through entities; and is not intended to be and should not be used by anyone other than these specified parties.

BARBACANE, THORNTON & COMPANY LLP

SOUTHEAST DELCO SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued [*unqualified, qualified, adverse or disclaimer*]:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs [*unqualified, qualified, adverse or disclaimer*]:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

_____ Yes X No

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|----------------|--|
| 84.410 | Education Jobs |
| 84.027, 84.391 | I.D.E.A., I.D.E.A. - ARRA |
| 84.394 | SFSF - Basic Education - ARRA |
| 84.386 | Education Technology State Grants - ARRA |
| 84.377 | School Improvement Grants |
| 10.553, 10.555 | Child Nutrition |

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ Yes X No

SOUTHEAST DELCO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

08-1 PAYROLL

Condition: During our test of controls, we noted that there is a risk of management override related to the payroll system. We further noted that certain payroll government tax returns were not reviewed before being remitted to such government agencies.

Criteria: Good internal control systems require segregation of duties and the limitation of management override as well as safeguarding the payroll function.

Effect: Errors and irregularities could occur and not be detected in a timely manner. Also, possible fraud could occur without proper controls to mitigate management override.

Cause: Ineffective internal controls placed in operation by District management.

Recommendation: We recommended that, in order to ensure proper segregation of duties, the Human Resources Department initiate all pay rate changes and deny access to the Payroll Department to those features of the payroll module that initiate new employees and pay rate changes. This will eliminate the possibility of an employee in the Payroll Department entering fictitious employees and/or making false pay rate adjustments to the District's master payroll file. We further recommended that all changes to payroll rates, payroll attributes and functional expense classifications be approved and recorded by the Human Resources Department. In addition, upon preparation of all government payroll tax returns by the District accountant, the returns should be reviewed by the Business Manager before remittance to the government authority.

Status: During the year ended June 30, 2011, the District has implemented procedures to properly mitigate the circumstances in the above mentioned recommendation. Although the payroll department still has access to pay rate changes, each payroll is reviewed by both the District Accountant and the Business Manager. This review includes examination of the direct deposit and check registers and other pertinent payroll information.

Additionally, the following procedures are currently in place:

- All new employees are entered into the accounting system by the Human Resources Department.
- All payroll rates are approved by the Director of Human Resources.
- All tax returns and filings are prepared by the District Accountant and approved by the Business Manager.

Because of the mitigating controls implemented by the District, this finding is no longer applicable.

SOUTHEAST DELCO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

08-2 CASH

Condition: District policy requires proper approval of all expenditures including the Business Manager's approval via signing of all purchase orders. We noted that numerous purchase orders were not signed by the Business Manager.

Criteria: Good business practice dictates that the District comply with its own internal control procedures to limit errors and irregularities. Also, it is imperative that such procedures be adhered to in order to establish effective internal controls related to cash and investments which will limit any potential fraud risk.

Effect: The District's controls surrounding cash disbursements are not operating effectively.

Cause: Ineffective internal controls placed in operation by District management.

Recommendation: We recommended that the Board recommunicate to all employees their responsibilities for the cash disbursements process, including proper signing off of such documents with regards to the food service fund.

Status: During our testing for the year ended June 30, 2011, we noted proper approval of purchase orders and expenditures by designated individuals in the food service fund.

This finding is no longer applicable.

09-1 PURCHASE ORDERS

Condition: District policy requires the use of a purchase order for all purchases except for those that are not required by District policy (i.e., recurring expenditures, contracted services, reimbursements, etc.). During our prior year test of controls over expenditures, we noted that 15 out of 60 invoices were not accompanied by an approved purchase order when required in accordance with District policy.

Criteria: The purpose of an effective operating purchase order system is to control the spending of resources and to help ensure that amounts paid are only for items received.

Effect: The District's controls surrounding purchases are not operating effectively.

Cause: Ineffective internal controls placed in operation by District management.

Recommendation: We recommended that management recommunicate to all employees their responsibilities under the cash disbursement process which includes the issuance of an approved purchase order prior to the purchase of any goods or services.

SOUTHEAST DELCO SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

Status: During our testing for the year ended June 30, 2011, we noted proper approval of purchase orders and expenditures by designated individuals in the food service fund.

This finding is no longer applicable.

IMPROVE BUDGETING PROCEDURES

09-3 Finding

During our prior year audit, we noted that the District's budgeting procedures provide for the preparation of an annual budget prior to the beginning of the year based on a projected fixed level of activity for each department within the District. When properly constructed and monitored, budgets stimulate early identification of operational problems and help to ensure that timely decisions are made for resolving the problems. During our prior year audit, we noted that the current year original budget was a significantly inaccurate projection of current year activities. Original budgeted expenditures were overbudgeted by approximately \$2.9 million and original budgeted transfers to other funds were underbudgeted by approximately \$1.6 million. In addition, there were few amendments to the original budget even though actual total revenues were \$900 thousand less than the original budgeted amount. Consequently, the fiscal year ended June 30, 2009 resulted in a net decrease in fund balance of \$6 million in the general fund, compared to the original budgeted net decrease of \$900 thousand.

Recommendation

We recommended that actual results of District operations be used to develop realistic future budgets and that monthly actual results be compared to budgeted amounts. Any large discrepancies uncovered during the monthly comparisons should be investigated so that a corrective action plan can be considered and implemented. Variances can be caused by erroneous assumptions or economic factors.

If the investigations of budget variance suggest that the budget is inaccurate, or if economic conditions vary from expectations, the budget should be revised to reflect current conditions or more reasonable estimates. By revising the budget in a timely manner, management can plan to reduce expenses to the amount of revenue being received. These analyses should be included in the monthly reports to the Board of School Directors to help them understand the financial results and their implications and to help the Board make informed financial decisions.

Status

During the year ended June 30, 2011, the District made necessary revisions to the budget throughout the current year to compensate for grants and other funding that was finalized after the preliminary budget was passed, as well as budget reallocations across functions to address program changes based on student needs.

This finding is no longer applicable.

SOUTHEAST DELCO SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**SOUTHEAST DELCO SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2011**

| | SOURCE CODE | FEDERAL CFDA NUMBER | PASS-THROUGH GRANTOR'S NUMBER | GRANT PERIOD BEGINNING/ ENDING DATES | GRANT AMOUNT | TOTAL RECEIVED FOR YEAR | ACCRUED (DEFERRED) REVENUE 07/01/2010 | REVENUE RECOGNIZED | EXPENDITURES | ACCRUED (DEFERRED) REVENUE 06/30/2011 |
|--|-------------|---------------------|-------------------------------|--------------------------------------|--------------|-------------------------|---------------------------------------|--------------------|--------------|---------------------------------------|
| <u>U.S. Department of Education</u> | | | | | | | | | | |
| <u>Federal Grantor/Pass-Through Grantor Project Title</u> | | | | | | | | | | |
| <u>Passed through Pennsylvania Department of Education</u> | | | | | | | | | | |
| | I | 84.010 | 013-11-0402 | 07/01/10-09/30/11 | \$ 1,637,693 | \$ 1,312,439 | \$ - | \$ 1,564,968 | \$ 1,564,968 | \$ 252,529 |
| Title I - Grants to Local Education Agencies | | | | | 1,702,998 | 447,026 | 332,451 | 114,575 | 114,575 | - |
| Title I - Grants to Local Education Agencies | | 84.010 | 042-09-0402 | 12/04/08-09/30/10 | 138,880 | 18,916 | (7,251) | 26,167 | 26,167 | - |
| Title I - Grants to Local Education Agencies | | 84.010 | 077-10-0402 | 07/01/09-09/30/10 | 3,600 | 240 | - | 2,880 | 2,880 | 2,640 |
| Total CFDA #84.010 | | | | | 938,964 | 1,778,621 | 325,200 | 1,708,590 | 1,708,590 | 255,169 |
| ARRA - Title I | | 84.389 | 127-10-0402 | 06/15/09-09/30/10 | 938,964 | 409,001 | 264,916 | 144,085 | 144,085 | - |
| Total Title I Program Cluster | | | | | | 2,187,622 | 590,116 | 1,852,675 | 1,852,675 | 255,169 |
| <u>Title II - Improving Teacher Quality</u> | | | | | | | | | | |
| Title II - Improving Teacher Quality | | 84.367 | 020-11-0402 | 07/01/10-09/30/11 | 349,190 | 326,943 | - | 349,190 | 349,190 | 22,247 |
| Title II - Improving Teacher Quality | | 84.367 | 020-10-0402 | 07/01/09-09/30/10 | 357,041 | 142,816 | 64,795 | 78,021 | 78,021 | - |
| Total CFDA #84.367 | | | | | 286,768 | 469,759 | 64,795 | 427,211 | 427,211 | 22,247 |
| <u>Reading First State Grants</u> | | | | | | | | | | |
| School Improvement Grant | | 84.377 | 142-10-0402 | 09/09/10-09/30/11 | 958,375 | 221,183 | - | 697,403 | 697,403 | 476,240 |
| School Improvement Grant | | 84.377 | 042-09-0402 | 12/04/08-09/30/10 | 109,120 | 14,904 | 14,904 | - | - | - |
| Total CFDA #84.377 | | | | | 236,087 | 14,904 | 14,904 | 697,403 | 697,403 | 476,240 |
| <u>Twenty-First Century Community Learning Centers</u> | | | | | | | | | | |
| Twenty-First Century Community Learning Centers | | 84.287 | 410005224 | 07/01/09-06/30/10 | 72,000 | 18,126 | 18,126 | 53,874 | 53,874 | 53,874 |
| Twenty-First Century Community Learning Centers | | 84.287 | 410005224 | 07/01/09-06/30/11 | 168,000 | 161,437 | - | 168,000 | 168,000 | 6,563 |
| Total CFDA #84.287 | | | | | 214,600 | 179,563 | 18,126 | 221,874 | 221,874 | 60,437 |
| <u>Education Technology State Grants, Recovery Act</u> | | | | | | | | | | |
| ARRA - Fiscal Stabilization - Basic Education | | 84.386 | 135-10-0402 | 07/01/09-09/30/10 | 214,600 | 185,987 | 75,201 | 110,786 | 110,786 | - |
| ARRA - Education Jobs Fund | | 84.394 | 126-11-0402 | 07/01/10-06/30/11 | 1,739,057 | 1,014,450 | - | 1,739,057 | 1,739,057 | 724,607 |
| Total Passed through Pennsylvania Dept of Education | | 84.410 | 140-12-0915 | 08/10/10-09/30/11 | 1,030,169 | 1,030,169 | - | 1,030,169 | 1,030,169 | - |
| Subgrant from U.S. Department of Education | | | | | | 5,374,979 | 834,504 | 6,079,175 | 6,079,175 | 1,538,700 |
| <u>Passed through Delaware County Intermediate Unit</u> | | | | | | | | | | |
| I.D.E.A. | | 84.027 | 062-10-0025 | 07/01/09-06/30/10 | 777,359 | 127,537 | 127,537 | - | - | - |
| I.D.E.A. | | 84.027 | 062-11-0025 | 07/01/10-06/30/11 | 724,795 | 562,848 | - | 724,795 | 724,795 | 161,947 |
| Total CFDA #84.027 | | | | | 698,648 | 690,385 | 127,537 | 724,795 | 724,795 | 161,947 |
| ARRA - I.D.E.A. | | 84.391 | 062-10-0025 | 07/01/09-06/30/10 | 309,063 | 43,983 | 43,983 | 309,063 | 309,063 | 28,965 |
| ARRA - I.D.E.A. | | 84.391 | 062-11-0025 | 07/01/09-06/30/11 | 309,063 | 280,098 | - | 309,063 | 309,063 | 28,965 |
| Total CFDA #84.391 | | | | | 14,128 | 324,081 | 43,983 | 309,063 | 309,063 | - |
| <u>Passed through Allegheny Intermediate Unit</u> | | | | | | | | | | |
| Inclusive Practices Mini Grant | | 84.027 | 062-10-0077 | 07/01/09-06/30/10 | 14,128 | 14,128 | 14,128 | - | - | - |
| Total I.D.E.A. - ARRA Program Cluster | | | | | 1,033,858 | 1,028,594 | 185,648 | 1,033,858 | 1,033,858 | 190,912 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | | | | 6,403,573 | 1,020,152 | 7,113,033 | 7,113,033 | 1,729,612 |

Continued on next page.

**SOUTHEAST DELCO SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS
FOR THE YEAR ENDED JUNE 30, 2011**

| Federal Grantor/Pass-Through Grantor Project Title (cont'd) | SOURCE CODE | FEDERAL CFDA NUMBER | PASS- THROUGH GRANTOR'S NUMBER | GRANT PERIOD BEGINNING/ ENDING DATES | GRANT AMOUNT | TOTAL RECEIVED FOR YEAR | ACCRUED (DEFERRED) REVENUE 07/01/2010 | REVENUE RECOGNIZED | EXPENDITURES | ACCRUED (DEFERRED) REVENUE 06/30/2011 |
|--|----------------|---------------------------|---|--|-----------------|-------------------------------|--|-----------------------|---------------------|--|
| U.S. Department of Agriculture Passed through Pennsylvania Department of Agriculture Value of U.S.D.A. Donated Commodities | I | 10.555 | N/A | | N/A | 74,481 | - | 74,481 | 74,481 | - |
| Passed through Pennsylvania Department of Education After School Snacks | I | 10.555 | N/A | 07/01/09-06/30/10 | N/A | 1,061 | 1,061 | - | - | - |
| After School Snacks | I | 10.555 | N/A | 07/01/10-06/30/11 | N/A | 11,545 | 70,484 | 12,104 | 12,104 | 559 |
| National School Lunch Program | I | 10.555 | N/A | 07/01/09-06/30/10 | N/A | 975,258 | - | 1,013,304 | 1,013,304 | 38,046 |
| National School Lunch Program | I | 10.555 | N/A | 07/01/10-06/30/11 | N/A | 1,132,829 | 71,545 | 1,099,889 | 1,099,889 | 38,605 |
| Total CFDA# 10.555 | | | | | | | | | | |
| Breakfast Program | I | 10.553 | N/A | 07/01/09-06/30/10 | N/A | 13,647 | 13,647 | - | - | - |
| Breakfast Program | I | 10.553 | N/A | 07/01/10-06/30/11 | N/A | 162,844 | - | 170,431 | 170,431 | 7,587 |
| Total CFDA# 10.553 | | | | | | 176,491 | 13,647 | 170,431 | 170,431 | 7,587 |
| Total Child Nutrition Cluster | | | | | | 1,309,320 | 85,192 | 1,270,320 | 1,270,320 | 46,192 |
| After School Snacks | I | 10.582 | N/A | 07/01/09-06/30/10 | N/A | 4,199 | 4,199 | - | - | - |
| State Matching Share | S | N/A | N/A | 07/01/10-06/30/11 | N/A | 69,577 | - | 72,333 | 72,333 | 2,756 |
| State Matching Share | S | N/A | N/A | 07/01/09-06/30/10 | N/A | 5,148 | 5,148 | - | - | - |
| Subtotal | | | | | | 74,725 | 5,148 | 72,333 | 72,333 | 2,756 |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | | | | 1,388,244 | 90,340 | 1,342,653 | 1,342,653 | 48,948 |
| TOTAL FEDERAL AWARDS AND CERTAIN STATE GRANTS | | | | | | \$ 7,791,817 | \$ 1,110,492 | \$ 8,455,686 | \$ 8,455,686 | \$ 1,778,560 |
| TOTAL FEDERAL EXPENDITURES | | | | | | \$ 7,717,092 | \$ 1,105,344 | \$ 8,383,353 | \$ 8,383,353 | \$ 1,775,804 |
| TOTAL STATE EXPENDITURES | | | | | | 74,725 | 5,148 | 72,333 | 72,333 | 2,756 |
| TOTAL FEDERAL AND STATE EXPENDITURES | | | | | | \$ 7,791,817 | \$ 1,110,492 | \$ 8,455,686 | \$ 8,455,686 | \$ 1,778,560 |

Source Codes:

- D = Direct Funding
- I = Indirect Funding
- S = State Share

SOUTHEAST DELCO SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND CERTAIN STATE GRANTS

NOTE A SCOPE OF THIS SCHEDULE

The Schedule of Expenditures of Federal Awards and Certain State Grants reflects federal expenditures for all individual grants which were active during the fiscal year. Additionally, the Schedule reflects expenditures for certain state grants.

NOTE B BASIS OF ACCOUNTING

The District uses the modified accrual method of recording transactions except as noted for the accounting of donated commodities in Note C. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

NOTE C NONMONETARY FEDERAL AWARDS - DONATED FOOD

The Commonwealth of Pennsylvania distributes federal surplus food to institutions (schools, hospitals and prisons) and to the needy. Expenditures reported in the Schedule of Expenditures of Federal Awards under CFDA #10.555 National School Lunch Program - Commodities represent surplus food consumed by the District during the 2010-2011 fiscal year.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2011 was \$367,510.

NOTE E BUILD AMERICA BONDS

The District was eligible to participate in the School Construction Bonds Program through the American Recovery and Reinvestment Act. As such, the District is eligible for reimbursement of certain amounts relating to the future debt service due on the bonds. These reimbursements are not considered federal financial assistance. The amount recognized for the year ended June 30, 2011 was \$222,970.